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ABSTRACT

This report provides explanations of checks and checking accounts and offers guidelines for their use. Types of checks which are explained include personal checks, negotiable orders of withdrawal, counter checks, universal checks, domestic and international money orders, cashier's checks, and travelers checks. A description of the different features on the face of a check is given. Guidelines and potential difficulties are discussed: (1) cashing checks (identification, personal checks, checks issued to an individual, two-party checks, and endorsements); and (2) depositing checks (deposit slips, endorsement for deposit only, partial deposits, deposit receipts, and placement of a hold on a check). Procedures for notifying the bank and authorities of lost, stolen, or forged checks and for stopping payment on a check are presented along with bank policies for dealing with rejected checks and overdrafts. Tips to save time and tips to save trouble are also included. Information in this report is current at the time of printing, June 1982, but is subject to change. (DC)

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The CIRcular™
Consumer Information Report 10

A Guide to Checks and Checking

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TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

The CIRcular™
Consumer Information Report 10

A Guide to Checks and Checking

In this report, you'll learn whom to call if your checks are lost or stolen; what happens when a hold is placed on your account; why two-party checks can be hard to cash; when a check goes "stale"; how to file a stop payment order; and more.

PERSONAL CHECKS Whether your checks are contemporary and colorful or traditionally styled, they always carry your name and your branch and account number on them. That's what makes them "personal." They may also carry your address and telephone number, which more clearly identify you to the person or business to whom you write the check.

Negotiable Order of Withdrawal (NOW) A NOW looks like a personal check and can be used in the same way, but the money it represents actually comes from a special type of savings account. As a practical matter, a NOW account works like a checking account that earns interest.

The information about personal checks presented in this report also applies to NOW accounts with one exception: because NOW accounts are technically savings accounts, financial institutions reserve the right to require at least 14 days' advance notice of your intent to withdraw funds. However, this right has rarely been exercised in the past, so it's highly unlikely it will ever be exercised with NOW accounts. (For further information on NOW accounts and other interest-paying checking plans, see *Interest on Checking: Check It Out,* Report #20 in this series.)

Counter Checks If you forget or run out of your own checks, you can use one of your branch's counter checks, which are provided as a customer convenience. These are preprinted with the branch's name, location, and number so they can be used only by account holders at your branch. A teller will imprint your account number on the check before giving it to you.

Universal Checks You may be able to get a universal check from a bank (not necessarily your own) or a merchant. These are blank check forms on which you fill in the name of your bank, your branch and its address, and your account number. Because you supply all the information, the teller or merchant will take extra precautions to identify you and verify your account.

OTHER TYPES OF CHECKS While personal checks are versatile, you may want to use a different type of check for some purposes. The checks listed below are usually considered a good form of payment because they indicate that the funds are actually on account with the issuer. When you use any of these checks, you pay a fee as well as the amount of the check, and you're given a receipt.

Domestic Money Orders You can buy these at financial institutions, post offices, and some stores. They are typically used to pay small bills and to purchase mail order merchandise. How readily a domestic money order will be accepted can vary, depending on the reputation of the issuer. For example, U.S. Postal Service money orders can be used throughout the country, but money orders issued by banks generally should not be sent outside the state.

International Money Orders You can buy these for limited amounts, designated in U.S. dollars, and use them to send money abroad.

Cashier's Checks These are issued by financial institutions for use in the United States. They are often more readily accepted than domestic money orders. Typically, cashier's checks are used to pay large amounts, such as a down payment on a home, but you can also use them to pay for small items.

Travelers Checks These are generally available in denominations of $10, $20, $50, $100, and, sometimes, $500 and $1,000. When you buy travelers checks, you get a purchase receipt. If your checks are lost or stolen, this receipt helps speed and simplify refund or replacement of the checks.

At the time you buy your travelers checks, you should sign each one. Although you may not be required to sign in the seller's presence, you should sign before leaving the branch or office. Blank checks, if lost or stolen, can be used by anyone. When you present your checks for cash or payment, you're asked to sign again so your signatures can be compared. You may also be asked to show identification. (For further information on travelers checks, see *Traveling Money,* Report #19 in this series.)

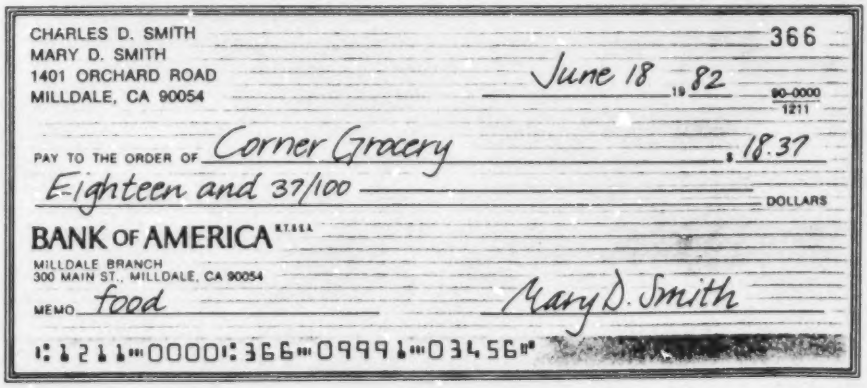
THE FACE OF A CHECK All checks have certain features in common. The following explanations are based on the sample personal check shown on this page.

June 18, 1982 As of this date—day, month, and year—the check is payable. If there is no date on the check, it is considered current and payable.

A "postdated" check is one dated for some time in the future. If you receive or write a postdated check, the bank may refuse to honor it or may hold it until that date.

A "stale-dated" check is usually one that is six months older than the date it carries. If a check becomes stale-dated more quickly, the stale date is specified on the face of the check in a phrase such as "Not Good after 60 Days." Banks generally do not cash stale-dated checks.

Checks drawn on the U.S. Treasury, such as Social Security checks, never become



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stale-dated. Checks that a financial institution draws on its own funds, such as cashier's and travelers checks, might not become stale-dated either, depending on the institution's policy.

Pay to the Order of Either this phrase or one of three others—"Payable to Bearer," "Payable to (name) or Bearer," or "Payable to (name) or Order"—must appear on the check to make it a legally negotiable item.

Corner Grocery The person(s), business, or association to whom the check is written is called the payee.

$18.37/Eighteen and 37/100 dollars You write the amount of the check in two ways—in numbers and in words—as a precaution against error. If there is a difference between the two, the amount written in words is the legal amount of the check.

Mary D. Smith Your signature is kept on file at your branch. Always sign your name as you did on the signature card when you opened your account. Variations may not be recognized and your check may be returned unpaid.

Bank of America, Milldale Branch The name of your bank and branch (called the drawee) is on the check so your account can be located and the check can be processed and paid.

Cashing Checks

Your branch will cash your check if it's "good"—that is, if it's properly made out, presented by a person who's known or has acceptable identification, and drawn on an account that contains enough money to cover the check.

A branch may, but is not obligated to, cash checks drawn on another branch of the same bank or on other banks.

IDENTIFICATION Personal acquaintance is the best form of identification. But, because it's impossible for all tellers to know every customer who walks into the bank, you need to carry identification cards and papers. In many cases, you'll be asked to show at least two forms of identification. Most banks prefer that one of those IDs carries your picture or physical description.

An acceptable ID usually consists of a permanent California driver's license or a California State Identification Card (issued to nondrivers by the Department of Motor Vehicles), a passport, a check guarantee card, a nationally known credit card such as BankAmericard® Visa® or MasterCard®, an employee identification badge or card from a well-known organization, or a military identification card. Each must be current.

These forms of identification are acceptable because they all bear your signature; in addition, many give a physical description and your birth date and show your picture. All have a verifiable number, and many have to be renewed at regular intervals.

Some banks and merchants have incorporated the use of fingerprints, thumbprints, or picture-taking devices into their identification procedures in order to discourage someone from using your ID to cash your checks.

Many banks give check guarantee cards to identify customers who have established a good banking relationship. Eligibility criteria and card privileges vary from bank to bank.

Unacceptable Identification Most banks and merchants won't accept temporary driver's licenses, Social Security cards, nonlocal or unknown credit cards, library cards, birth certificates, savings passbooks, or checkbooks.

These are unacceptable because they are either too easily obtained or don't firmly establish your identity. Some don't bear your signature. Any card that is expired, altered, or mutilated is also considered unacceptable ID.

CASHING YOUR PERSONAL CHECK If the teller at your branch isn't personally acquainted with you, he or she may leave the teller station to compare the signature on the check you're cashing with the signature in the bank file. The teller may also verify that you have enough money in your account to cover the check.

At another branch of your bank, you probably will have to show ID unless the teller knows you. The teller may also call your branch to verify that the check is good.

You may find it difficult to get your check cashed at a bank where you don't have an account. Many banks that do cash noncustomers' checks charge for doing so.

No matter where you cash your personal check, always sign it in the teller's presence.

CASHING CHECKS ISSUED TO YOU If the check is issued by a well-known, reputable organization, you should have no problem cashing it at your branch or at another branch of your bank.

If the check is issued by a private party or an unfamiliar organization, you may have trouble cashing it at another branch of your bank or at another bank. This is because tellers may not have sufficient information to verify the check. You always have the option of cashing the check at the branch of the bank on which it's drawn; but, if that's not convenient, your own branch is likely to give you the best service.

TWO-PARTY CHECK This is a check that was originally made out to someone else, who in turn signed it over to you. You must endorse it (sign your name on the back) before it can be cashed or deposited.

In theory, a check can be endorsed and negotiated by any number of people. But in practice, you may have difficulty cashing a two-party check or one with several endorsements. One reason for this is that the bank is required to endorse the check; by doing so, the bank guarantees that prior endorsements are valid. If the bank can't verify the other signature(s) on the check, it may be unwilling to make the guarantee and so would not cash the check.

YOUR ENDORSEMENT When you endorse a check, you are showing rightful ownership of it. You are also entering into a legally enforceable contract: Your endorsement says you accept responsibility for making the check good—no matter who issued it—should it bounce. (The fact that the bank may later guarantee the check by its endorsement does not relieve you of your responsibility.) How you endorse a check depends on how it's made out, as described below.

- Endorse a check exactly as your name appears on it. If your name is misspelled, first sign that way and then sign correctly underneath.
- If a check is made out to "(your name) OR (someone else's name)," only one endorsement is necessary, though both of you may endorse it.
- If a check is made out to "(your name) AND (someone else's name)," then both endorsements must appear on the back of the check. One cannot sign for both, but an exception is made for certain joint tenancy accounts. If the other person has died, you should request that a new check be issued in your name alone. A Social Security check, however, can be specially validated at a local office of the Social Security Administration so it can be cashed by the survivor.

OTHER TYPES OF ENDORSEMENT If you wish to sign a check over to someone else, you may endorse it in any of these ways:

1. You can simply sign your name on the back of the check. This is called a blank endorsement. It's important to note, however, that a check with a blank endorsement becomes payable to the holder. If the check is lost or stolen, anyone may be able to cash it.

2. You can write "Pay to the order of (the person's name)" and then sign your name. This is a special endorsement.

3. If you bank by mail, you can use a restrictive endorsement. In this case, you'd write "For deposit only" before signing your name.

Depositing Checks

FILLING OUT A DEPOSIT SLIP To be sure your money is deposited into the right account, fill out the deposit slip clearly and completely. Preprinted deposit slips, which come with your order of preprinted checks, simplify this job. If you run out of preprinted slips, you may use blank forms provided by the bank. On these, you must fill in your name, branch, and account number.

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On Bank of America checks and deposit slips, this information is located in the last ten digits of the imprinted numbers on the bottom of the check or deposit slip. On the sample deposit slip shown, these digits are 09991-03456.

The first four numbers, 0999, indicate the branch of Bank of America where your account is maintained. The last six numbers, 1-03456, are your assigned account number.

Branch and account numbers may be arranged differently on other banks' checks.

How to List Checks On the deposit slip, you must identify checks you are depositing by dollar amount and the ABA number of each. The ABA number is a code developed by the American Bankers Association that indicates the bank on which the check is drawn. Normally the number is in the upper right section of the check, in a form such as

$$\frac{\text{90-0000}}{\text{1211}} \quad \text{or} \quad \text{90-0000/1211.}$$

The ABA number in this case is 90-0000. The number 1211, indicating that the bank is located in the 12th Federal Reserve District, need not be placed on the deposit slip.

ENDORSING CHECKS FOR DEPOSIT Each check you deposit into your account should carry your endorsement. A restrictive endorsement— "For deposit only" followed by your account number and your signature—is a good safety measure to use when you bank by mail or endorse checks before you get to the bank.

PARTIAL DEPOSITS With a partial deposit, you deposit part of a check and have the teller give you the rest in cash. This is also called a "less cash" transaction.

To make a partial deposit, first endorse the check by signing your name; don't use the phrase "for deposit only." On the deposit slip (see example below), enter the full amount of the check you're depositing. Record the full amount in the section marked "subtotal."

Enter the amount you want back in cash in the section "less cash returned from deposit." Subtract "less cash" from "subtotal," and enter the difference in the box marked "total deposit."

To show that you have received some cash, you must sign the deposit slip in the teller's presence. At a branch other than your own, you'll also be required to show identification, since a partial deposit is the same as cashing a check.

GET A RECEIPT Always be sure to get a receipt for your deposits. The teller can either record your deposit in the deposit record section of your checkbook or issue a duplicate deposit slip. If you have deposited checks, the amount indicated on the receipt is subject to verification by the bank. For instance, if one of your deposited checks is returned because there's not enough money in the account on which it's drawn, the amount of that check will be deducted from your account balance.

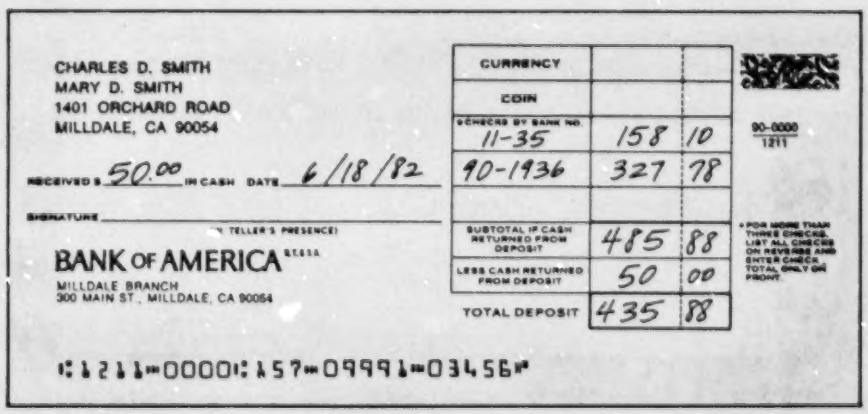
Once you have a receipt for your deposit, in most cases you can begin to draw on that money immediately. The exception is when a "hold" is placed on your account.

HOLD ON YOUR ACCOUNT When your bank places a hold for uncollected funds (UCF) for the amount of a check you deposit, you cannot use those funds for a period of time. Generally, the hold is in effect for the number of business days it takes the check to clear—to reach the bank on which it's drawn and, if necessary, be returned to the branch where you deposited it.

Financial institutions have different policies regarding holds. Be sure you understand when a hold would be placed on your account and how many days it would be in effect. If you make the deposit in person, you can ask the teller.

At Bank of America, a hold may be placed if the check you deposit is: (1) written for a sizable amount or an amount that's larger than your account balance; (2) drawn on another bank, branch, or organization; or (3) issued by a person or organization whose reliability isn't known to the bank. The hold is in effect until the check clears, generally 3 to 12 business days.

You are notified if a hold is placed on your Bank of America account. If you make the deposit in person, the teller notes the hold in your deposit record by writing "UCF" and the number of days the hold will be in effect; this appears next to the date of deposit. If you make a deposit by mail, through an "instant deposit" box in the bank lobby, or through an automated teller machine (ATM), you are notified of the hold by return mail.


CHARLES D. SMITH
MARY D. SMITH
1401 ORCHARD ROAD
MILLDALE, CA 90054

RECEIVED $ 50.00 IN CASH DATE 6/18/82

SIGNATURE _____ (IN TELLER'S PRESENCE)

BANK OF AMERICA NT&SA
MILLDALE BRANCH
300 MAIN ST., MILLDALE, CA 90054

CURRENCY		
COIN		
CHECKS BY BANK NO. 11-35	158	10
90-1936	327	78
SUBTOTAL IF CASH RETURNED FROM DEPOSIT	485	88
LESS CASH RETURNED FROM DEPOSIT	50	00
TOTAL DEPOSIT	435	88

90-0000 / 1211

* FOR MORE THAN THREE CHECKS, LIST ALL CHECKS ON REVERSE AND ENTER CHECK TOTAL ONLY ON FRONT.

⑆1211⑆0000⑆157⑈09991⑈03456⑈

What Happens If. . .?

Many procedures aren't part of your normal banking routine, but you'll want to know about them in case you need to use them. Following are some of the most important.

LOST CHECKS If you lose any of your personal checks, report the loss to your bank promptly. A warning will be placed on your account, and signatures on incoming checks will be carefully inspected to detect possible forgeries.

If you lose a cashier's check or a domestic or international money order—or if you believe it was stolen or destroyed—go to the branch or other outlet where you bought the item. At Bank of America, you'll be asked to sign an indemnity agreement, and, depending on the circumstances, you may have to post an indemnity bond.

An indemnity agreement is your statement that the missing item has been reissued to you and that you, not the bank, are liable for any loss if the bank is later required to pay the original item.

An indemnity bond may be required if, for example, the check or money order was for more than a certain amount. You can buy the bond from an insurance company. In issuing the bond, the company agrees to repay the bank if the bank is later required to pay the original item. You buy the bond for a face amount equal to the value of the lost item plus an amount to cover possible costs. Fees are based on the size of the bond and vary by company. The bond should have a term of at least seven years.

Instead of buying the bond from an insurance company, you can have two persons who are acceptable to the bank act as bonding parties—that is, agree to repay the bank if it's later required to pay the original item.

As a safety measure, the bank may wait up to 30 days to reissue the lost item.

STOLEN CHECKS If you suspect your checks have been stolen, first make a report to the police in the city or town where the theft took place. Then notify your bank of the time, date, and place the police report was made. A warning will be placed on your account. You may be asked to close your account and open a new one under a different number.

FORGERIES As long as you have reported your checks missing or stolen to the proper authorities, you usually will not be held responsible for losses due to forgery. The bank or merchant who accepted the forged check(s) is charged for the loss.

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You have a legal obligation to report a forgery to your bank promptly. If you don't, and if the bank loses money and shows it could have recovered the money if you'd reported promptly, you are held responsible for the loss. If you wait for more than a year after you receive your statement and canceled checks to report a forgery, you cannot recover the loss. Individual banks are allowed to establish time limits that are shorter than a year. An officer at your bank can tell you its policy.

When you report a forgery to your bank, be prepared to back up your claim. You may be required to furnish your bank with a notarized affidavit that gives the details of the forgery. This document may be used to bring criminal charges against the forger.

STOP PAYMENTS You can order a stop payment on one of your checks if you don't want it paid. Your reason might be that the check was lost in the mail or you failed to receive merchandise paid for by check. There are two ways to order a stop payment:

1. You may go to your branch and fill out a stop payment order. The form will ask for specific information about the check: the date it was made payable, the exact amount of the check, the payee, the number of the check, the name of the person who signed it, and the reason for the stop payment.

2. You may mail your branch a written request for stop payment. Your letter should contain all of the above information about the check and include your signature.

In either case, the stop payment won't go into effect until your branch verifies that the check has not been paid. If the check is presented at the bank for payment while the stop payment is in effect, it will be returned unpaid to the person who presented it. That person will be referred to you for the reason the stop payment was placed.

Under certain circumstances, payment of a check can be enforced even though a stop payment order has been filed. Ask an officer at your bank about the limitations on stop payments.

Most banks charge for filing stop payments. The order stays in effect for six months; you can usually renew it if necessary, but there probably will be an additional charge.

REJECTED CHECKS AND OVERDRAFTS If you write a check for more money than you have in your account, the bank may either pay the check and overdraw your account, or reject (bounce) the check.

In the first instance, the bank pays the check and deducts the amount from your account, leaving it with a negative balance. The bank will send you a notice of checks paid in this manner and the amount of the bank's charge. You'll be expected to make a deposit to cover the overdraft and the charge.

In the second instance, the bank rejects the check by returning it unpaid to the person or organization you made it out to. You should notify the person or organization immediately of when you have added or will add money to your account so that the check can be redeposited. The bank and many merchants charge for returned checks. If the redeposited check bounces a second time, the bank will again charge you a fee; the merchant may also charge you again.

If you deposit a check that later is rejected by the bank on which it's drawn, the amount of the check will be subtracted from your account balance, and the check will be returned to you. The bank may charge you a fee.

Overdraft Protection There are two types of overdraft protection banks may offer to qualified customers. One type involves automatic transfers from your savings account. If you authorize this service, funds are automatically transferred from your savings account to your checking account to cover any overdrafts. Minimum transfer amounts and transfer charges vary among banks.

The other type of overdraft protection service is backed by a credit card account or a personal line of credit established for this purpose. Qualification requirements differ among banks.

With this service, money that is transferred into your checking account is charged against the credit card or line of credit, up to the limit of your available credit. Money transferred into your account under this type of plan may be subject to interest charges according to the terms of your credit account agreement. Some plans also charge a fee each time a transfer is made.

Tips to Save Time

When you cash a check, always sign in the teller's presence. If you don't and the teller isn't personally acquainted with you, chances are you'll have to sign again. The teller must see you sign your name before your identification can be accepted for signature comparison.

When you take cash back from a deposit, always sign the deposit slip in the teller's presence. Remember, this is like cashing part of a check.

If you're depositing the full amount of a check, endorse it before you reach the teller's station.

Always endorse checks just as they are made out to you. If you don't, you may be asked to endorse them again.

Do as much paperwork as you can before you get to the teller's window. Fill out deposit slips, including the ABA numbers of any checks, and fill in your personal check except for the signature line.

When writing your personal check for cash, you can make it payable to "Cash" or "Bearer." If you make it payable to yourself or the bank, you'll have to endorse it on the back. It's safest to write out such a check at the bank.

A little time taken to balance your statement promptly will save a lot of time later if there's an error to be traced. (For help in balancing your checkbook, see *How to Balance Your Checkbook*, Report #1 in this series.) Report errors on your statement as soon as possible.

Tips to Save Trouble

Treat your checks as you would cash. Keep them as secure as possible.

Don't make changes on the face of a check that's issued to you, and don't accept a check that looks as if it's been altered. The bank may refuse to honor such checks.

Avoid carrying checks made out to "Cash" or "Bearer"; and never sign your personal checks until you've filled in the amount and the payee. If such checks are lost or stolen, anyone can cash them.

Check all entries the teller makes in your deposit record and all duplicate deposit slips to make sure they're legible and correct. If you're taking cash back from the deposit, count your money carefully to see that it's the correct amount. Do both of these things before you leave the teller's station.

Always inspect new check orders to make sure your name is spelled correctly and your address and phone number are listed accurately. Also make sure your account number is properly imprinted. Any errors should be reported to the bank.

Anytime you have a question about checks or checking procedures, ask an officer at your bank for an explanation.

Information in this report is effective at the time of printing–June 1982–and is subject to change.

Prepared by Bank of America, Box 37128, San Francisco, California 94137

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